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COUNTY OF LOS ANGELES  
DEPARTMENT OF HEALTH SERVICES  
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November 29, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD  
Director and Chief Medical Officer

**SUBJECT: HEALTH DEPARTMENT BUDGET COMMITTEE OF THE WHOLE**

This is to provide an update on the Department of Health Services' (DHS) fiscal outlook and the status of activities related to the implementation of Scenario III of the Department's system redesign plan.

The previous forecast went through Fiscal Year 2007-08, in which the Department's forecast cumulative shortfall was estimated to be \$629.9 million. As the County has closed the books on Fiscal Year 2003-04, DHS has updated its fiscal outlook by dropping this year and adding Fiscal Year 2008-09. The schedule below provides a snapshot of the change in the Department's fiscal outlook from Fiscal Year 2007-08 and 2008-09.

	<u>\$ Estimates in Millions</u>	
	<u>Thru FY 07-08</u>	<u>Thru FY 08-09</u>
Year-End <b>Cumulative</b> Fund Balance / (Shortfall) as of September 2, 2004	<u>\$(629.9)</u>	<u>\$(1,112.3)</u>
Significant changes per Attachment A	<u>(67.7)</u>	<u>(105.4)</u>
<b>New</b> Year-End <b>Cumulative</b> Fund Balance / (Shortfall) as of November 4, 2004.	<u>\$(697.6)</u>	<u>\$(1,217.7)</u>
Forecast <b>Annual</b> Operating Shortfall	<u>\$(455.6)</u>	<u>\$(520.1)</u>

The line titled "New Year-End Cumulative Fund Balance/Shortfall" represents the deficit of funding needed to continue the Department's existing programs through each respective fiscal year, assuming the closure of Rancho Los Amigos and the 100 beds at LAC+USC Medical Center on June 30, 2006.

Attachments A and B detail the changes in the Department's fiscal forecast. The change in the forecast shortfall can be attributed to a number of changes in the assumptions related to revenue realization and expenses by both the Department and the Chief Administrative Office. Among the changes noted in Attachment A are an additional \$60.4 million in costs associated with keeping Rancho open and \$31.9 million for keeping the 100 beds open at LAC+USC Medical Center through June 30, 2006. A detailed explanation of these items is included in Attachment B.

As the Department has previously noted there continue to be a number of significant events, delineated in Attachment C, which, if they occur, would substantially alter the fiscal outlook for the worse; causing the Department's cumulative shortfall to grow to \$2.371 billion in Fiscal Year 2008-09.

As I have reported in the past, federal and state activities related to restructuring the Medicaid and Medi-Cal programs could have a substantial impact on the Department's budget over the next several years. The State has delayed the target completion date for its Medi-Cal redesign plan to January 2005. The State also continues to work on a financing proposal with the federal Centers for Medicare and Medicaid Services (CMS), which may be completed prior to the redesign plan, which is intended to save \$400 million annually statewide, beginning in Fiscal Year 2005-06. This restructuring, which is yet to be finalized, is intended to supercede the State's Selective Provider Contracting Program waiver and could have a significant impact of the Department's fiscal outlook. DHS is continuing to work actively with the State and as part of a number of coalitions, such as the California Healthcare Association's Disproportionate Share Hospital Task Force and the California Association of Public Hospitals in an attempt to ensure this proposal does not disproportionately impact the Department.

The Department has previously informed your Board it would be delaying implementation of the Fiscal Year 2004-05 installment of the 16 percent efficiencies at King/Drew Medical Center from July 1 to October 1, 2004 (Item 3A on Attachment D). However, given the magnitude of the problems at the hospital, the Department will not be making any staffing reductions and thus will not achieve the target savings during this Fiscal Year. The Department will be placing on the Board's December 7 agenda a budget adjustment to transfer \$41 million from the Department's designation fund to the hospital's operating budget to offset the costs associated with

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delayed efficiency savings, the contract with Navigant Consulting, and other expenses incurred associated with additional costs for contract nursing staff.

While this increase in the forecast deficit is not unexpected, it does highlight to volatility of the Department's fiscal outlook and the need to reassess the previous strategic plan and the recommendations included for balancing the budget. Over the next few months DHS will be reevaluating the savings identified in Scenarios II and III of its system redesign proposal and will be presenting further recommendations to reduce the Department's forecast deficit. In order to take into account the impact of any changes that may result from the State's efforts on Medi-Cal reform, the Department will be reporting back to your Board in March 2005 with its deficit reduction recommendations.

I will continue to keep you apprised of these activities. Please let me know if you have any questions.

TLG:ak

Attachments

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors

DHS Fiscal Outlook

Attachment A is a high level summary of the key developments, and their fiscal impact, since our last update through September 2, 2004. Attachment B provides an update through November 4, 2004 of the Department's Fiscal Outlook. Since Fiscal Year (FY) 03-04 is now complete, we have updated the base year for our Fiscal Outlook to FY 04-05 and have added FY 08-09 to maintain our five year forecast. This has caused our Estimated Cumulative Year-End Shortfall, which was reported to you to be \$629.9 million at the end of FY 07-08, which is now \$605.3 million through that date, to increase to \$1,217.7 million as of November 4, 2004. This amount is computed by taking the increased funding shortfall in FY 07-08 over FY 06-07 [\$629.9M (Attachment A, Column 4, Line (1)) - \$147.5M (Attachment A, Column 3, Line (1)) = \$482.4M] and adding it to the Estimated Cumulative Year-End Shortfall of \$629.9 (\$629.9M + \$482.4M = \$1,112.3M), and then adding the updates included on Attachment A, Column 5, Lines (2) – (14), through November 4, 2004. In the event that any of the following three events transpire, they could cause this estimate to increase, as follows:

	<u>\$ In Millions</u>
Estimated Cumulative Year-End Fund Balance/ (Shortfall) as of November 4, 2004	\$(1,217.7)
--Inability to Close/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2006, or thereafter	( 337.8)
--Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration (June 30, 2005)	( 262.6)
--Federal Re-basing of SPCP Waiver	( <u>552.9</u> )
<u>Potential</u> Estimated Cumulative Year-End Fund Balance/(Shortfall) as of November 4, 2004	<u>\$(2,371.0)</u>

DHS, along with the CAO, County Counsel and the County's Legislative Strategist, continue to pursue preventing these three events from transpiring.

Of the \$568.7 million designation balance at the end of FY 03-04 [Attachment B, Line 13, Column (2)], the Auditor-Controller (A-C) has placed \$126.9 million in a reserve account for long-term receivables relating to CBRC revenue payments, for CBRC services provided through June 30, 2004, that will likely not be received by June 30, 2005. The expected delay in receiving these payments from the State is due to the time being taken to complete their annual audits of CBRC cost reports. Since the State

## DHS Fiscal Outlook (cont.)

is paying us for CBRC services based on highly conservative interim rates, pending completion of its CBRC cost report audits, the interim payments are expected to be much less than the final reimbursement made after audit completion. The consequence of placing a portion of the designation balance in the reserve account is that such funds are not available for use in the current fiscal year. Should a similar reserve be required at the end of FY 05-06, this would have the practical effect of increasing the forecast \$149.7 million designation balance shortfall for FY 06-07 [Attachment B, Line 13, Column (5)] to a \$276.6 million shortfall (\$172.1M + \$126.9M).

In attempt to alleviate this situation, we are requesting that the State increase its interim reimbursement rates and/or accelerate the completion of CBRC cost report audits. The State, however, may be reluctant to grant this request, since its cash basis accounting system would force recognition of any accelerated payments as an expense, adding to its budgetary shortfall.

The State continues to work on a Medi-Cal redesign plan, deferring its target completion date a second time, now to January 2005. They also continue to work on a financing proposal with CMS, which may be completed sooner, and still plan to begin saving \$400 million per year Statewide, beginning in FY 05-06. This restructuring, which is yet to be finally defined, is intended to supersede the SPCP Waiver, which was recently extended by CMS through June 2005, and could have a major impact on the Department's Fiscal Outlook. We continue to actively work with the State, its consultant, the California Healthcare Association's DSH Task Force, and the California Association of Public Hospitals to achieve as favorable an outcome to the County as possible from this process.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK**  
 SEPTEMBER 2, 2004 THROUGH NOVEMBER 4, 2004

Fiscal Year / Columns / \$ In Millions						
	04-05 / (1)	05-06 / (2)	06-07 / (3)	07-08 / (4)	08-09 / (5)	Total / (8)
(1) <b>Revised Estimated Cumulative Year-End Fund Balance / (Shortfall) - September 2, 2004</b>	\$ 488.9	\$ 214.6	\$ (147.5)	\$ (629.9)	\$ (1,112.3) <sup>(E)</sup>	\$ (1,112.3)
(2) Extension of assumed <u>Rancho closure/transfer</u> and <u>LAC+USC 100 bed reduction</u> one-year to June 30, 2006	-	(92.3) <sup>(D)</sup>	-	-	-	(92.3)
<b>Other Significant Changes</b>						
(3) Further delay K/DMC's start date for FY 04-05 and subsequent fiscal years <u>efficiency savings</u> from November 1, 2004 to January 1, 2006.	\$ (18.5)	\$ (29.9)	\$ (10.3)	\$ (3.0)	\$ (3.0)	\$ (64.7)
(4) Adjust <u>Clinical Resource Management</u> costs for the current fiscal year based on estimates received in October 2004.	20.4	-	-	-	-	20.4
(5) Update <u>salary costs</u> and include the impact of the anticipated salary COLA (3%) in FY 08-09 based on salaries included in the FY 04-05 Supplemental Budget Resolution on September	-	2.1	4.5	7.2	(29.7)	(15.9)
(6) CAO adjust <u>employee benefits</u> for Options, Worker's Compensation and Retiree Health per estimates on October 29, 2004.	14.5	-	-	-	-	14.5
(7) Add K/DMC oversight team (Navigant Consulting) costs per Board approved contract on October 19, 2004.	(8.8)	(4.4)	-	-	-	(13.2)
(8) CAO adjust <u>debt service costs</u> primarily for the LAC+USC replacement facility in FY 07-08 per estimates on October 18, 2004.	-	-	5.8	13.7	13.7	33.2
(9) Update the <u>estimate for services received from other County Departments (OCD)</u> and include the impact of the anticipated COLA (3%) in FY 08-09 based on OCD services included in the FY 04-05 Supplemental Budget Resolution as of September 28, 2004.	-	1.3	2.9	4.6	0.5	9.3
(10) Update <u>nursing staffing costs</u> by reflecting a surplus of \$30.0 million for AB 394 Nurse salaries which are offset by a deficit of \$36.8 million in estimated overexpenditures for Nursing Registry costs per facility estimates received in October 2004.	(6.8)	-	-	-	-	(6.8)
(11) CAO adjust <u>medical malpractice costs</u> based on estimates received on September 17, 2004.	3.1	0.7	0.8	0.9	0.9	6.4
(12) Update the <u>services &amp; supplies CPI</u> to 2.6% and include the impact of the CPI in FY 08-09 based on statistics obtained from the US Department of Labor on October 4, 2004.	-	1.1	2.3	3.6	(2.7)	4.3
(13) CAO adjust <u>capital project costs</u> for FY 04-05 based on updated estimates received from Health Facilities Planning Services on October 4, 2004.	0.5	0.6	0.6	0.6	0.6	2.9
(14) Adjust <u>FY 08-09 expense base</u> for employee benefits, pharmaceuticals, LAC+USC Transition/EMR costs, vehicle license fees and other minor categories.	-	-	-	-	(17.0)	(17.0)
(15) Change in <u>current fiscal year operating forecast</u> received in October 2004 / Other minor ongoing changes to the future years estimates.	19.6	(3.6)	(0.7)	(0.8)	(1.0)	13.5
(16) Forecast improvement/(reduction) roll-forward	-	24.0 <sup>(B)</sup>	(100.4) <sup>(B)</sup>	(94.5) <sup>(B)</sup>	(67.7) <sup>(B)</sup>	-
<b>Subtotal Other Significant Changes</b>	<u>\$ 24.0</u>	<u>\$ (8.1)</u>	<u>\$ (94.5)</u>	<u>\$ (67.7)</u>	<u>\$ (105.4)</u>	<u>\$ (13.1)</u>
(17) <b>Revised <sup>(A)</sup> Estimated Cumulative Year-End Fund Balance / (Shortfall) - November 4, 2004</b>	<u>\$ 512.9 <sup>(C)</sup></u>	<u>\$ 114.2</u>	<u>\$ (242.0)</u>	<u>\$ (697.6)</u>	<u>\$ (1,217.7)</u>	<u>\$ (1,217.7)</u>

**Notes**

- (A) Assumes Rancho and LAC+USC 100 beds will be closed June 30, 2006, CBRC/FQHC will be extended for each year beyond FY 04-05, and the SPCP Waiver will not be re-based.
- (B) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$24.0 million in FY 05-06 is \$512.9 million - \$488.9 million from FY 04-05.
- (C) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.
- (D) Reflects \$60.4M for the Rancho closure/transfer and \$31.9M for the LAC+USC 100 bed reduction.
- (E) This amount is computed by taking the increased funding shortfall in FY 07-08 over FY 06-07 (\$629.9M - \$147.5M = \$482.4M) and adding it to the Revised Estimated Cumulative Year-End Fund Balance of \$629.9M (as of 9/2/04).

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**FISCAL OUTLOOK - NOVEMBER 4, 2004**  
(\$ IN MILLIONS BASED ON FY 04-05 SUPPLEMENTAL BUDGET RESOLUTION)

Line #	FISCAL YEARS / COLUMNS							TOTAL / (8)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	2008-09 / (7)	
1. Surplus/Deficit as of June 26, 2002		\$ (326.6)	\$ (549.2)	\$ (709.4)				
2. Scenario III Reductions / Use of Designation Funds	*(see note)	267.8	327.8	357.5				
3. Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)	*(see note)	\$ (58.8)	\$ (221.4)	\$ (351.9)	\$ (387.3) <sup>(A)</sup>	\$ (423.7) <sup>(A)</sup>	\$ (461.8) <sup>(A)</sup>	\$ (1,904.9)
4. Actual / Forecast Update **	263.9	340.0 <sup>(B)</sup>	432.6 <sup>(C)</sup>	45.5 <sup>(D)</sup>	31.1 <sup>(D)</sup>	(31.9) <sup>(D), (I)</sup>	(512.5) <sup>(D), (I)</sup>	
5. Actual / Forecast Surplus/(Shortfall) <sup>(E),(F)</sup>	\$ 263.9	\$ 281.2	\$ 211.2 <sup>(L)</sup>	\$ (306.4) <sup>(L)</sup>	\$ (356.2) <sup>(L)</sup>	\$ (455.6) <sup>(L)</sup>	\$ (974.3) <sup>(L)</sup>	\$ (974.3)
6. Beginning Fiscal Year Fund Balance	121.0 <sup>(G)</sup>	353.1 <sup>(H)</sup>	452.8 <sup>(K)</sup>	664.0	357.6	1.4	-	-
7. <b>Estimated Cumulative Year-End Fund Balance/(Shortfall)</b> <sup>(E),(F)</sup>	<b>\$ 384.9</b>	<b>\$ 634.3</b>	<b>\$ 664.0</b>	<b>\$ 357.6</b>	<b>\$ 1.4</b>	<b>\$ (454.2)</b>	<b>\$ (974.3)</b>	<b>\$ (974.3)</b>
8. Defer Rancho Closure (191 beds) to June 30, 2006	\$ -	\$ (49.5)	\$ (55.7)	\$ (60.4)	\$ -	\$ -	\$ -	\$ (165.6)
9. <b>Impact</b> to Beginning Fiscal Year Fund Balance	-	-	(49.5)	(105.2)	(165.6)	(165.6)	(165.6)	N/A
10. <b>Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)</b>	<b>\$ 384.9</b>	<b>\$ 584.8</b>	<b>\$ 558.8</b>	<b>\$ 192.0</b>	<b>\$ (164.2)</b>	<b>\$ (619.8)</b>	<b>\$ (1,139.9)</b>	<b>\$ (1,139.9)</b>
11. Defer LAC+USC Medical Center 100 Bed Reduction to June 30, 2006	\$ -	\$ (16.1)	\$ (29.8)	\$ (31.9)	\$ -	\$ -	\$ -	\$ (77.8)
12. <b>Impact</b> to Beginning Fiscal Year Fund Balance	-	-	(16.1)	(45.9)	(77.8)	(77.8)	(77.8)	N/A
13. <b>Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)</b>	<b>\$ 384.9</b>	<b>\$ 568.7</b> <sup>(J)</sup>	<b>\$ 512.9</b>	<b>\$ 114.2</b>	<b>\$ (242.0)</b>	<b>\$ (697.6)</b>	<b>\$ (1,217.7)</b>	<b>\$ (1,217.7)</b>

**NOTES TO FISCAL OUTLOOK**

- \* The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.
- \*\* Includes revenues previously shown separately (Measure B, SPCP/UPL Waiver, SB 855, and the Federal portion of the Outpatient Lawsuit Settlement), the current year's portion of which is already included in the FY 03-04 budget.
- (A) These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.
- (B) Up to \$20.0M of the FY 03-04 SPCP/UPL dollars may require DSH flexibility to be retained.
- (C) Reflects release of the \$96.1M trust fund reserve.
- (D) If CBRC/FQHC is not available after June 30, 2005, CBRC revenues, net of AB 915 backfill, will decline by \$62.7M, \$64.7M, \$66.6M and \$68.6M for FY's 05-06, 06-07, 07-08 and 08-09, respectively.
- (E) Per State DHS, CMS may "re-base" the Medicaid Upper Payment Limit (UPL) beginning FY 05-06. The impact on County DHS of this potential action is estimated to result in reductions of Medicaid revenues from FY 02-03 levels. These estimated reductions totaling **\$552.9M**, are **\$97.6M**, **\$124.9M**, **\$152.1M** and **\$178.3M**, for FYs 05-06, 06-07, 07-08 and 08-09, respectively, and are not reflected in the above. When the UPL is fully implemented, the value could be as high as \$198.0M. There is also a non-hospital clinic UPL, which the State has yet to compute, that could further reduce County DHS' Medicaid revenues. Further, the full realization of the Scenario III savings, future State and Federal Budgets, accelerating healthcare inflation, and potential future Medicaid reform create significant uncertainty regarding the Department's Fiscal Outlook.
- (F) These amounts are potentially improved by the managed care supplement proposal currently being worked on with the State and Federal governments.
- (G) Reflects a beginning fund balance of \$366.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.
- (H) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.
- (I) These estimates do not take into account the opening of the LAC+USC replacement facility in July 2007. Per LAC+USC, current financial projections for the new LAC+USC will not be available until January 2005.
- (J) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.
- (K) Reflects a beginning fund balance of \$568.7M less the \$115.9M fund balance included in the FY 04-05 Supplemental Budget Resolution.
- (L) Reflects an "unidentified budget surplus" of \$100.0M added by the CAO for each fiscal year.

ATTACHMENT B

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**FISCAL OUTLOOK - NOVEMBER 4, 2004**  
**POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS**  
(\$ IN MILLIONS BASED ON FY 04-05 SUPPLEMENTAL BUDGET RESOLUTION)

**POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS:**

Line #	FISCAL YEARS / COLUMNS							TOTAL / (8)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	2008-09 / (7)	
14. <u>Revised</u> Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7	\$ 512.9	\$ 114.2	\$ (242.0)	\$ (697.6)	\$ (1,217.7)	\$ (1,217.7)
15. Inability to Close/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2006, or thereafter	\$ -	\$ -	\$ -	\$ -	\$ (103.5) <sup>(A)</sup>	\$ (113.4) <sup>(A)</sup>	\$ (120.9)	\$ (337.8)
16. Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration on June 30, 2005	-	-	-	(62.7) <sup>(B)</sup>	(64.7) <sup>(B)</sup>	(66.6) <sup>(B)</sup>	(68.6)	(262.6)
17. Federal "Re-basing" of SPCP Waiver	-	-	-	(97.6)	(124.9)	(152.1)	(178.3)	(552.9)
18. Medi-Cal Redesign	-	-	?	?	?	?	?	?
19. Subtotal	\$ -	\$ -	\$ -	\$ (160.30)	\$ (293.10)	\$ (332.10)	\$ (367.80)	\$ (1,153.30)
20. <b>Impact</b> to Beginning Fiscal Year Fund Balance	-	-	-	-	(160.3)	(453.4)	(785.5)	N/A
21. <b>Potential Estimated Cumulative Year-End Fund Balance/(Shortfall)</b>	<b>\$ 384.9</b>	<b>\$ 568.7</b>	<b>\$ 512.9</b>	<b>\$ (46.1)</b>	<b>\$ (695.4)</b>	<b>\$ (1,483.1)</b>	<b>\$ (2,371.0)</b>	<b>\$ (2,371.0)</b>

**NOTES TO POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS**

- (A) Updated to reflect the latest base budget per the FY 04-05 Supplemental Budget Resolution.  
(B) Updated to reflect the latest CBRC estimates.

ATTACHMENT C



**SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS) (a)**FISCAL YEARS 2002-03 THROUGH 2008-09  
(\$ in millions)

Line #. Line #. A.	Board Decision Date	Planned/ Imple- mentation Date	Status as of 11/4/04	PLANNED SAVINGS - LINE #. VS. FORECAST SAVINGS - LINE #. A.							
				2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	
HOSPITALS											
1.	Planned reduction of LAC+USC 100	10/02	05/03	Court injunction	\$ 2,000	\$ 16,100	\$ 29,800	\$ 31,900	\$ 34,100	\$ 36,500	\$ 39,100
1. A.	Forecast savings				(b)	(b) (c)	(c)	(c)	34,100	36,500 (n)	39,100
2.	Planned LAC+USC efficiencies	10/02	07/05		-	-	-	20,100	20,700	21,300	21,900
2. A.	Forecast savings				-	-	-	20,100	20,700	21,300	21,900
3.	Planned 16% efficiencies at MLK/D	06/02	05/03		2,800	20,900	46,200	61,900	63,800	65,700	67,700
3. A.	Forecast savings (e)			07/03	(b)	20,900	20,900 (d) (f)	33,115 (d) (f)	52,671 (d) (f)	60,013 (d) (f)	60,130 (d) (f)
4.	Planned closure of RLANRC or alternate governance	10/02 & 06/03	07/04		-	58,600 (m)	64,800	70,400	77,400	85,000	93,300
4. A.	Forecast Saving (e)			Court injunction	-	9,100 (c)	10,894 (c)	10,894 (c)	77,400	85,000	93,300
6.	Planned conversion of HDH to a MACC	06/02	05/03		1,400	9,800	11,100	12,500	14,100	16,000	18,200
6. A.	Forecast Saving (e)			07/03	(b)	8,631 (b)	9,931 (f)	11,184	12,616	14,316	16,284
7.	Planned capital cost avoidance at HDH	06/02	07/02		2,000	0,900	-	-	-	-	-
7. A.	Forecast Saving				(b) (g)	(b) (g)	-	-	-	-	-
8.	Planned restructure of psych services	10/02	10/02	Negotiations ongoing	0,200	20,200	25,300	29,200	33,600	38,600	44,300
8. A.	Forecast savings (e)				0,250	7,721 (h)	9,662 (2)	9,662 (2)	9,662 (2)	9,662 (2)	9,662 (2)
COMPREHENSIVE HEALTH CENTERS											
9.	Planned CHC efficiencies	10/02	05/03		3,700	23,300	24,000	24,600	25,300	26,100	26,900
9. A.	Forecast savings (e)			07/03	(b)	9,864 (b)	12,207 (f) (3)	16,970	17,480	18,000	18,500
HEALTH CENTERS											
Northeast Area											
10.	Planned closure of 4 HC's	06/02	10/02		6,300	8,900	9,300	9,700	10,100	10,500	10,900
10. A.	Forecast savings			10/02	6,300	8,900	9,300	9,700	10,100	10,500	10,900
Coastal Area											
11.	Planned closure of 1 HC	06/02	10/02		1,000	1,400	1,400	1,500	1,600	1,700	1,800
11. A.	Forecast savings			10/02	1,000	1,400	1,400	1,500	1,600	1,700	1,800
Southwest Area											
12.	Planned closure of 4 HC's	06/02	10/02		12,700	18,100	18,700	19,400	20,200	21,000	21,800
12. A.	Forecast savings			10/02	7,400	12,995 (b)	13,020 (f)	13,500	14,060	14,620	15,200
San Fernando Valley Area											
13.	Planned closure of 2 HC's	06/02	10/02		3,200	4,500	4,700	4,800	4,900	5,000	5,100
13. A.	Forecast savings			10/02	3,200	4,500	4,700	4,800	4,900	5,000	5,100
Antelope Valley Area											
14.	Planned 5% efficiency from AV/DHS Partnership	06/02	10/02		0,030	0,200	0,200	0,200	0,200	0,200	0,200
14. A.	Forecast savings			10/02	0,030	0,200	0,200	0,200	0,200	0,200	0,200
OTHER											
16.	Planned PPP visit reductions	06/02	09/02		12,500	15,000	15,000	15,000	15,000	15,000	15,000
16. A.	Forecast savings			09/02	12,500	15,000	15,000	15,000	15,000	15,000	15,000
20.	Planned Public Health reductions	06/02	10/02		6,700	9,200	9,400	9,700	10,000	10,300	10,600
20. A.	Forecast savings			07/02	7,500	7,730 (b)	7,960 (f)	8,200	8,450	8,700	9,000
21.	Planned contract out of OMC Admin	06/02	05/03		2,300	8,000	8,000	8,000	8,000	8,000	8,000
21. A.	Forecast Saving (e)				2,300 (i)	(b)	-	-	-	-	-
22.	Planned cost/revenue adjustments (j)	10/02	07/03	07/03	-	25,700	41,600	38,600	38,600	38,600	38,600
SCENARIO III PLANNED SAVINGS TOTAL (k)					\$ 56,830	\$ 240,800	\$ 309,500	\$ 357,500	\$ 377,600	\$ 399,500	\$ 423,400
LESS: FORECAST SAVINGS AS OF 10/25/04					40,480 (l)	132,641	156,774	193,425	317,539	339,111	354,676
SAVINGS SURPLUS / (SHORTFALL)					\$ (16,350)	\$(108,159)	\$(152,726)	\$(164,075)	\$(60,061)	\$(60,389)	\$(68,724)
LESS: COURT ORDERED ENJOINED SAVINGS					-	65,60	83,71	-	-	-	-
ADJUSTED SAVINGS SURPLUS / (SHORTFALL)					<u>\$ (16,350)</u>	<u>\$ (42,559)</u>	<u>\$ (69,020)</u>	<u>\$ (164,075)</u>	<u>\$ (60,061)</u>	<u>\$ (60,389)</u>	<u>\$ (68,724)</u>

**Note: Shaded items are revisions from the last Fiscal Outlook Update of 9/2/04. (Please refer to changes listed on Page 2)***The attached footnotes are an integral part of the Scenario III Summary Report.*

**SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS) <sup>(a)</sup>**FISCAL YEARS 2002-03 THROUGH 2008-09  
(\$ in millions)**Notes:**

- (a) From projected budgets compared with FY 01-02 service level for each year.
- (b) The savings projections originally projected in FY 02-03 have been covered by the surplus from DHS' FY 02-03 operations. DHS' FY 02-03 final surplus was \$263.9 million. The savings projections originally projected in FY 03-04 have been covered by the surplus from DHS' FY 03-04 operations.
- (c) Pending outcome of the litigation (RLA - Rodde Case Scheduled Court Date 2/22/2005) and (LAC+USC/RLA - Harris Case Scheduled Court Date 4/26/2005). This estimate will be updated when more information is available. \$9.1 million for Rancho represents the difference between \$58.6 million accelerated Rancho closure savings and \$49.5 million 191 bed FY 03-04 variable net operating cost. In FY 04-05, \$10.894 million reflects the cumulative savings with an additional \$1.794 million S&S savings in the FY 04-05 DHS Supplemental Budget Request due to reductions in contracts that will not affect Census.
- (d) Reflects a savings delay. Cuts that were to be taken on 7/1/04 will be delayed to 1/1/06; Cuts that were to be taken on 7/1/05 will be delayed to 1/1/07.
- (e) Revised savings as of November 4, 2004.
- (f) The revised savings amounts for FY 04-05 and forward are calculated based on the ratios between the original savings and the revised savings for FY 03-04.
- (g) The CAO has suggested that DHS utilize the savings from the DHS funded projects in order to meet the targeted savings as outlined in the Proposed Savings Plan for HDH Capital Cost Avoidance. According to the CAO, the savings from the HDH Capital Cost Avoidance is not a savings to DHS.
- (h) DHS revised the FY 03-04 savings for psych services restructuring from \$20.2 million to \$16.5 million in savings for psych services restructuring. However, the CAO Supplemental Budget Resolution includes a savings of \$6.3 million (original psych services net cost of \$20.2 million less a reduction in net cost of \$10.5 million and adjusted for an error at K/DMC of \$4.3 million). Negotiations are still ongoing regarding the restructure, however, it appears there will be no additional savings beyond the \$6.3 million included in the CAO Supplemental Budget for FY 03-04. The FY 04-05 savings is based on the FY 04-05 DHS Supplemental Budget savings of \$9.7 million.
- (i) OMC met the \$2.3 million target through existing one time FY 02-03 operational savings, even though the contracting out to LA Care has not happened.
- (j) Cost/revenue adjustments refer to revenues generated by facilities to be closed, which can still be collected by Health Services and distributed across the system.
- (k) Excludes one-time expenses such as costs associated with layoffs, facility closure costs, and facility transition costs. Health Services has not yet completely identified or quantified these costs but proposes that they could be partially paid for with Tobacco Settlement funds.
- (l) The revised Scenario III total excludes those items that were covered by surplus/savings from DHS' FY 02-03 operations.
- (m) Although not originally in Scenario III of the June 2002 DHS Strategic Plan, the Board approved a one-year acceleration of the Rancho savings on 06/23/03.
- (n) Does not take into account the opening of the LAC+USC replacement facility on July 2007.

**Changes made to shaded items are revisions from the last Fiscal Outlook Update of 9/2/04 as follows:**

- (1) Line 1.A - FY 2005-06 forecast savings of \$31.9 million decreased to zero to reflect the delay of the closure of the 100 beds to June 30, 2005.
- (2) Line 3.A - FY 2004-05 Forecast savings of \$38.057 million decreased by \$17.157 million to \$20.9 million based on the Financial Performance Analysis Report provided by the facility. Reflects a savings delay. Cuts that were to be taken on 7/1/04 will be delayed to 1/1/06; Cuts that were to be taken on 7/1/05 will be delayed to 1/1/07.
- (3) Line 4.A - FY 2005-06 forecast savings of \$70.4 million decreased by \$60.4 million to \$10.9 million to reflect the delay of the closure/transfer to June 30, 2005.
- (4) Line 8.A - FY 2005-06 Forecast savings revised from \$6.55 million to \$9.662 million based on the latest estimates and will remain status quo for FY 05-06 and forward.
- (5) Line 9.A - FY 2004-05 Forecast savings of \$16.480 million decreased by \$4.273 million to \$12.207 million based on the Financial Performance Analysis Report provided by the facilities for the month of August 2004.

## Attachment E

Since FY 03-04 is now complete, we have updated our five-year Fiscal Outlook by dropping FY 03-04 and adding FY 08-09. Attachment A, which reflects this change, also shows other significant changes since the Department's last update through September 2, 2004. In brief summary, the impact of these changes is shown below.

	<u>\$ Estimates in Millions</u>	
	<u>Thru FY 07-08</u>	<u>Thru FY 08-09</u>
Year-End <b>Cumulative</b> Fund Balance / (Shortfall) as of September 2, 2004	<u>\$(629.9)<sup>(1)</sup></u>	<u>\$(1,112.3)<sup>(1)</sup></u>
Significant changes per Attachment A	<u>(67.7)<sup>(2)</sup></u>	<u>(105.4)<sup>(2)</sup></u>
<b>New</b> Year-End <b>Cumulative</b> Fund Balance / (Shortfall) as of November 4, 2004.	<u>\$(697.6)<sup>(3)</sup></u>	<u>\$(1,217.7)<sup>(3)</sup></u>
Forecast <b>Annual</b> Operating Shortfall	<u>\$(455.6)</u>	<u>\$(520.1)</u>

### Notes:

- <sup>(1)</sup> Forecast annual operating shortfall for FY 07-08 as of the last (September 2004) report to the Board was \$482.4M. This amount, when added to the \$629.9M cumulative fund balance shortfall through FY 07-08, becomes the starting cumulative shortfall through FY 08-09, i.e., this assumes FY 08-09 will be just like FY 07-08 before the \$(67.7)M and \$(105.4)M adjustments shown above.
- <sup>(2)</sup> Reflects additional \$(60.4)M for the Rancho closure/transfer and \$(31.9)M for the LAC+USC 100 bed reduction, due to the extension of assumed Rancho closure/transfer and LAC+USC 100 bed reduction one-year to June 30, 2006, plus other changes per Attachment A.
- <sup>(3)</sup> These amounts represent the cumulative shortfall of funding needed to continue the Department's existing programs through each respective fiscal year, assuming Rancho closure/transfer and LAC+USC 100 bed reduction on June 30, 2006.

Additional information regarding the Fiscal Outlook is provided in the attached.